

corospondent

The Coronation Fund Managers Quarterly



Opportunity amidst uncertainty

Notes from my inbox	2	If history doesn't repeat itself, it rhymes	12
Market data	2	International outlook	15
Asset management – 2010 and beyond	3	Lansdowne Partners Limited	17
Keeping out of trouble	6	Personal investments update	18
Global inflation outlook	8	Core fund range	19
Bond market outlook	10	Performance tables	20
Equity market update	11		

January 2010

CORONATION 
FUND MANAGERS

Notes from my inbox


by PIETER KOEKEMOER

A lot can change in a decade. The events (and their consequences) of the past 10 years, together with those as yet unknown, will shape the environment through which investors must steer their portfolios en route to wealth creation.

The noughties were book-ended by two share market crashes – the tech wreck of 2000 and the credit crunch of 2009 – which caused enormous disappointment for investors in developed markets with returns that were flat to negative. South African investors have however enjoyed a much better investment experience, with local equities giving a return of 4.5 times initial capital over the last 10 years. As we have maintained since late 2008, we remain convinced that the tables will turn over the next 10 years, with foreign assets likely to produce better returns (see the October 2009 edition of *Corospondent* for our supporting arguments).

Coronation can proudly report good outcomes for our clients over the last decade. As shown in our revamped performance report on page 21, the capital growth-oriented Coronation Balanced Plus Fund outperformed its category average by 2.8% p.a. over the past ten years. Doesn't sound like much? An investment of R100 000 into this fund at inception in 1996 would have grown to more than R800 000 today, compared to the R590 000 produced by its average competitor. This exceptional relative performance is not confined to one fund only. Because all our funds share the common Coronation DNA, relative performance is consistent across funds with different risk and return objectives. All five of our domestic core funds have produced 1st quartile performance since their respective inception dates and four of the five did the same over the past five years. The Coronation Top 20 Fund also remains the top performing broad-based equity fund in the country over five years, and is one of only seven domestic equity funds to beat the FTSE/JSE All Share Index over this period. If you need guidance about which fund may be appropriate for your needs, take a look at the fund comparison table included on page 19.

In this issue we focus on the characteristics of success in the investment industry. After a good year it's always useful to reflect on the core values and concepts that underpin our competitive advantage. To ensure that the most important of these values remain top of mind we have decided to codify them in the Coronation Client Charter.

We also provide our usual update on recent market events, with the key conclusion that the rapid recovery in asset prices during 2009 requires that we retain a defensive stance and to become somewhat more circumspect in our asset allocation decisions. We know that the next ten years will present its own set of challenges, but we are up to the task. I feel confident that in the January 2020 *Corospondent* we will again be able to confirm that the trust placed in us by our investors was well deserved. 

MARKET MOVEMENTS

Economic group	Qtr 4 2009 %	2009 %
All Share Index R	11.4	32.1
All Share Index \$	13.2	70.1
All Bond R	1.1	(1.0)
All Bond \$	2.6	27.5
Cash R	1.8	8.9
Resources Index R	16.7	35.5
Financial Index R	6.5	28.0
Industrial Index R	8.5	30.5
MSCI World \$	4.2	30.8
S&P 500 \$	6.0	26.5
Nasdaq \$	9.1	51.8
MSCI Pacific \$	0.1	24.3
Dow Jones EURO Stoxx 50 \$	1.8	29.7

KEY ECONOMIC DATA: HISTORY AND FORECAST

	2007a %	2008a %	2009e %	2010f %	2011f %
HCE	5.5	2.4	(3.1)	2.7	3.5
GCE	4.7	4.9	4.7	4.8	4.8
GFCF	14.2	11.7	4.0	2.9	4.0
GDP	5.5	3.7	(1.7)	2.9	3.1
Current a/c % of GDP	(7.4)	(7.1)	(4.1)	(5.3)	(5.7)
CPI	7.1	11.5	7.1	5.1	5.5
Prime rate (year-end)	14.5	15.0	10.5	10.5	13.0
R/\$ year-end	6.83	9.92	7.48	8.40	9.25
R/EUR year-end	9.94	13.44	10.89	11.76	12.40

Asset management – 2010 and beyond

The survival of the fittest

by PIETER KOEKEMOER

The world has changed – of that there is no doubt – and our everyday vocabulary has adjusted to the new paradigm. Bubbles, formerly associated with fun at kids' parties, are now synonymous with booms and busts in financial markets; apple is no longer just a fruit and nor is a blackberry. The ups and downs of the past decade have been profound, starting with the hype around Y2K (remember that?) and ending with one of the worst crises in financial market history. No-one could have foreseen such a dramatic series of events. During this time the asset management industry, which had grown in size and complexity, was humbled. While no-one escaped the effects of the crisis, some businesses fared considerably better than others. The clear winners are those that remained true to the key characteristics that have shaped successful asset management firms for decades.

The extreme volatility of markets in the recent past has most certainly 'turned up the heat' on asset managers, with divergences in long-term sustainable performance widening every day. In a world where investors are increasingly forced to take responsibility for their own financial wellbeing in retirement, this divergence now represents simply too much opportunity cost that can no longer be ignored or considered immaterial. Looking at performance of the 36 balanced funds in South Africa over the past five years alone, the divergence between the best and worst performing manager is 13.6% p.a. This represents a difference of more than R1 000 additional return per R1 000 invested over this period.

Regulatory complexities, the cost of compliance and clients' demands for timely and relevant information about how their capital is deployed have also all increased dramatically. So, today we face a different and much tougher operating environment to that of the '90s or the past decade.



PIETER KOEKEMOER is head of the personal investments business. His key responsibility is to ensure exceptional client service through a combination of appropriate product, relevant market information and, above all, strong investment performance.

Investment gurus and business leaders agree – the key to success is focus. Needless to say, at Coronation we concur. It has always been our belief that it will be the independent asset management houses that present the strongest value proposition to clients. The South African asset management industry has been a model example of what can go wrong without the key element of focus: A large number of firms, in an attempt to keep pace with global trends and quick revenue earning strategies for shareholders, spent much of the past five years changing investment structures (from consolidated teams to boutiques and back again); investment philosophies (value, growth, contrarian, momentum), and even their senior staff. This also extended to investment products, with the launch of iteration upon iteration in an attempt to capture the newest and latest unique trend or market buzz. Ultimately, many of these fad products failed to deliver and a great many asset management companies found themselves so caught up in all the restructuring that investment performance (and as a result client returns) suffered enormously.

So what are the key ingredients for success?

There are five broad yet distinct areas that contribute to the success of an asset management business:

- Independent, focused and simple in structure. This involves the establishment of superior products, sustainable processes, flat structures and the outsourcing of all non-core functions to ensure focus on the key objective of asset management.
- Robust investment philosophy and process with a strong internal culture. Develop the right investment philosophy and stick to it. Hire and retain the best people, avoid bureaucracy and establish the right tools and framework to motivate employees to strive for excellence.
- Align interests of clients, staff and shareholders through shared incentives and ownership.

- Create a client-centric company where meeting the needs of clients is central to the business.
- Manage growth and align objectives with capabilities and investment opportunity set. Understand the capacity constraints of different asset classes and know in advance when to close to new business.

It is the application of these values and principles that have led many of the greatest global investment firms to become enduring long-term businesses. At Coronation it is how we ensure the long-term success of our business and our clients.

The Coronation DNA

Independence, focus and staff ownership

This is a characteristic that we hold dearly at Coronation. We are an organisation solely focused on asset management, with no other 'group company' pressures influencing the way in which we manage clients' assets or how we run the business. This affords us the opportunity to continuously act in the best interests of all our clients, with no preference to any individual grouping.

We have a unique business structure where staff own 30% of the business. This fundamentally changes the commitment our people make within the business and reaffirms the strong alignment of interests with clients and the management of their portfolios.

Single investment philosophy

The ongoing focus on delivering strong long-term returns is illustrated across all our client contracts. We have one investment philosophy across the house – there are no silos or boutiques with different offerings. This approach has ensured that our business has improved its asset allocation skills – something which has proven vital given the market changes experienced over the past five years. We believe our investment philosophy to be our competitive advantage (this is explored further by CIO, Karl Leinberger on page 6).

Exceptional people

Over the years we have developed and nurtured a culture of teamwork and excellence, and the entrepreneurial flair that was so evident in the early days remains a vital ingredient of our DNA today.

Our culture of ownership and unique performance driven environment both encourages and rewards people to work hard, grow continually and contribute to the direction and success of the business. Our investment team is a unique blend of skill and experience and we are one of the only investment teams in the world with three ex-CIOs still actively managing money within the team.

At Coronation, we aspire to be experts in our chosen fields of investments, client service, operations and finance, yet we all share the common drive and passion for excellence.

Client-centric culture of excellence

The nature of our business requires clients to entrust their hard-earned capital to us, often for periods of 20 years or more. This compels us to be uncompromising about ethics – we know that trust is earned over time yet lost in an instant. Our focus is on providing a range of funds that are easy to understand, have clearly defined return objectives, risk budgets and competitive long-term performance. We also provide a wide variety of access points to our funds to accommodate the needs of different investors as efficiently as possible. We do not own any distribution channels and rely solely on investors and their independent financial advisors electing to invest with us based on their assessment of our ability to deliver.

We strongly believe in the equitable treatment of all clients, and disapprove of those houses where a variety of funds with similar objectives, but vastly different management styles and portfolios, are offered to clients. All our funds reflect the same 'DNA' in their composition, rather than leaving clients with the task of selecting from a variety of different approaches all aimed at achieving similar objectives.

Manage growth and align objectives with capabilities and investment opportunity set

At Coronation sustainable performance over the long term is vital to both our clients and our business. We know the level at which our ability to generate returns for existing clients would be impeded for each of our product lines – particularly those which operate in less liquid areas of the market. An excellent example of this is the capping of our institutional absolute product range in 2005 when we believed market liquidity levels dictated closure. In 2009 this product stream was reopened as market conditions changed and the accumulation




of additional assets would not affect our ability to meet the promises given to existing clients. This is also the reason why we apply exit fees for short-term investments in our Preference Share Fund, where the underlying asset class is subject to liquidity constraints, and our Global Emerging Markets Fund, where the nature of cross-border investing in multiple markets results in higher trading impact costs.

Furthermore, we are not a business that looks to launch new products in response to market fads. All products launched are required to pass a strict internal test of being relevant for the long-term needs of investors. As such, we have a focused product range that addresses the long-term needs of the different investors in South Africa and abroad.

A client-centric asset manager conducts all its business activities in a manner that looks to what is best for the client. At Coronation, we have been very vocal about our business

practices and continue to provide full disclosure to all our clients regarding our company and its operations. We do not engage in softing arrangements, have placed retrospective caps on all our performance fees, and continue to ensure that all our own retirement funds are invested in Coronation pooled vehicles. We were the first local asset manager to gain GIPS® compliance and are a signatory to the United Nations' Principles for Responsible Investment, a framework for achieving better long-term investment returns and more sustainable markets.

Since our inception in 1993 we have sought to consistently focus on our key objective of achieving excellence in asset management. While the world around us changes, we hold steadfast to what we believe to be fundamental – our independence, investment philosophy and culture. Our aim is not to be the biggest, but to be the best and for our clients to know that with us their money is in good hands. 

The Coronation Client Charter

To confirm our commitment to the core values set out above, we have decided to formalise the key points in the Coronation Client Charter. This represents a public and open commitment from Coronation and its employees to you, our client. Its aim is to provide you with a framework for evaluating our overall performance as your investment provider. While it does not represent a legally binding contract, it provides a clear indication of what you can expect from us and we hope will inspire you to provide us with feedback aimed at improving our adherence to the ideals it incorporates.

- **We strive to always put clients first**
 - **We have an unwavering commitment to the long term**
 - **We focus on producing top performance over all meaningful periods**
 - **We are uncompromising about ethics**
-

Keeping out of trouble

Guided by an unwavering commitment to the long term

by KARL LEINBERGER

The greatest challenge in any investment firm is to build an enduring competitive advantage. In an industry as competitive as fund management, it is not an easy task.

It is tempting to argue that Coronation's competitive advantage lies in its people. We endeavour to hire only the very best and then we put extraordinary effort into training them to become world-class investment professionals. But we have to acknowledge that we have no monopoly over good people. In previous generations, the smart kids all became lawyers, doctors and engineers. These days, they all seem to want to join the financial services industry. The sad truth (for us!) is that we compete in an industry full of smart people.

The defining characteristic of Coronation's investment philosophy is its long time horizon. Any Coronation person will tell you that this is our enduring competitive advantage. In the investment world, time horizons have collapsed as they have converged with reporting periods. In our industry, smart people are placed under massive pressure every day to perform well this month, this quarter and this year. It is axiomatic that in a market where most participants are obsessed with short-term performance, market prices will reflect short-term considerations. This inevitably results in severe dislocations between market prices and long-term business value. It follows that this must then present a compelling opportunity for those investors that have the long time horizon to take advantage of this dislocation.

The last two years have been very successful for Coronation. During a time of extraordinary volatility our portfolios have all performed well. The period kicked off with euphoria in the commodities markets. Halfway through 2008, the local market was hit by the simultaneous collapse of the commodity, construction and small cap cycles. In late 2008, global markets sold off in anticipation of the worst synchronised global recession



KARL LEINBERGER is CIO and a member of the executive committee. He joined Coronation in 2000 as an equity analyst, was made head of research in 2005 and appointed CIO in May 2008. Karl co-manages the Coronation Equity and Balanced Plus Funds as well as the Houseview portfolios.

since the Great Depression and then, to everyone's surprise, recovered strongly in 2009 as the global economy showed signs of recovery. I must stress that we do not believe that our good performance came from any special insights. We had no idea when the commodity, construction or small cap cycles would turn. We certainly had no inkling that global markets would recover by approximately 60% off their March 2009 lows. What has kept us out of trouble, time and time again, has quite simply been an unwavering commitment to the long term.

It all sounds very intuitive: cut out the noise; fish where no-one else is fishing. In practice though, it is much harder than you think. It is tempting to try and time markets. We under-estimate how susceptible each one of us is to instant gratification. It is tough when you are under-performing and you know it could be a long time before things turn. But the upside is enormous. We have built our entire business around this commitment to long-term investing. We are fortunate that our clients understand our philosophy and support us, and we have the business structures in place to ensure that our investment team is not distracted from its long-term focus. These are things that sound easy, but are, in reality, very difficult to achieve in an investment business.

We recently did some interesting work on our long-term track record. The following charts show the alpha of our equity portfolios since Coronation opened for business in 1993 over varying periods (rolling one year and five years).

The analysis is, in our opinion, instructive for the following reasons:

- Our long-term track record is compelling. Over just 16 years we have achieved alpha of 3.5% p.a. (or 13% p.a. using the alternative compound annualised alpha* calculation).
- The power of compounding is staggering. In 16 short years this has translated into 62% in value (client portfolio 62% higher than the benchmark).
- Over meaningful periods (five years, in our opinion): our long-term alpha has been consistent.

* The industry does not have a standard calculation of alpha. We have provided the two calculations to assist comparisons.



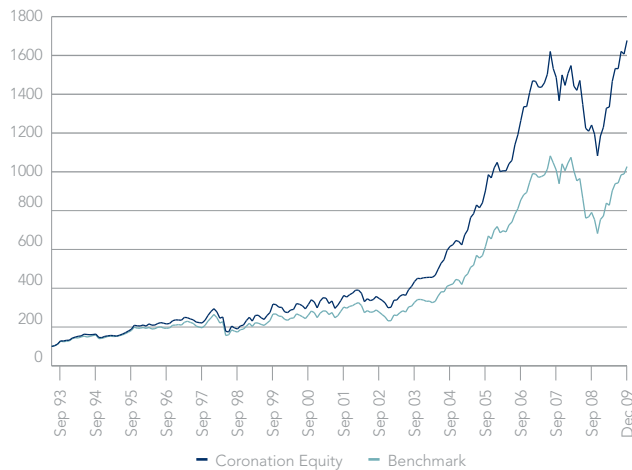
- Over periods as short as 12 months our short-term alpha has been tremendously volatile with many periods of substantial underperformance (always followed by periods of outperformance as our long-term views were vindicated).

LONG-TERM TRACK RECORD

Per annum	Coronation Equity	Benchmark	Alpha	Cumulative Alpha*
Since inception	18.95%	15.41%	3.54%	13.20%
10 years	18.09%	14.44%	3.65%	9.25%
5 years	22.20%	19.77%	2.43%	4.74%
3 years	9.89%	6.31%	3.58%	4.03%
1 year	35.11%	29.91%	5.19%	5.19%

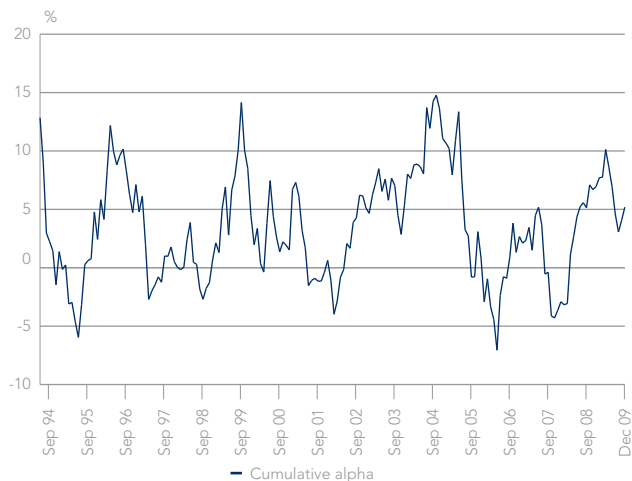
Source: Coronation

CUMULATIVE RETURNS



Source: Coronation

1-YEAR ROLLING ALPHA




Source: Coronation

5-YEAR ROLLING ALPHA



Source: Coronation

This analysis demonstrates that a long-term investor with a good track record will have many challenging years. It is important for clients to understand that this comes with the territory and it is often in these periods that the best long-term investments are made. Naturally, in these periods we will be asked hard questions – but this also comes with the territory. We will respond by testing ourselves to ensure that we have the necessary conviction in our underlying views and that our portfolios have been stress-tested for the inescapable uncertainties of the world we live in.

When performance is good, one easily forgets how trying these times are. They will come again and when they do we hope that as an investor you will take comfort from the fact that we have been there before, and that there are no short cuts to wealth creation. 

Global inflation outlook

Low inflation for now but it may not stay that way

by CHANTAL VALENTINE

There has been some debate about the outlook for global inflation for this year (and the next couple of years). The argument is broadly split into three camps:

1. Those economists who fear that the massive monetary and fiscal stimulus of the past couple of years can only end in tears as far as inflation is concerned. Such massive stimulus will work to promote growth and with interest rates at abnormally low levels and budget deficits historically high, the stage is set for an inflationary surge.
2. Those who argue from a perspective of 'spare capacity' or slack in the economy, and who hold that significant spare capacity in both manufacturing enterprises and in labour markets means that there will not be price pressure for any appreciable length of time.
3. The inflation denialists also include those who argue that the recovery will be short-lived and that the massive unwind of debt required on the part of governments will dampen growth and thus inflationary pressure, as will the normalisation of consumer debt levels in the Anglo-Saxon economies.

Of course, being economists there is always an 'on the other hand'... in this case, the 'other hand' argument is that camp two will dominate for a while and camp one will eventuate. Camp three is probably the least 'flexible', as the scenario outlined there would take some years to play out.

Overlaid on each of the three scenarios – which all tend to argue from an economist's 'top down' perspective – are the 'bottom up' feeds into inflation, most importantly commodity prices. Commodity price scenarios tend to be bound up with prospects for global growth – so that the growth optimists will find their arguments reinforced by the effects of positive growth on commodity prices, and the growth pessimists would expect to see downward pressure on commodity prices.

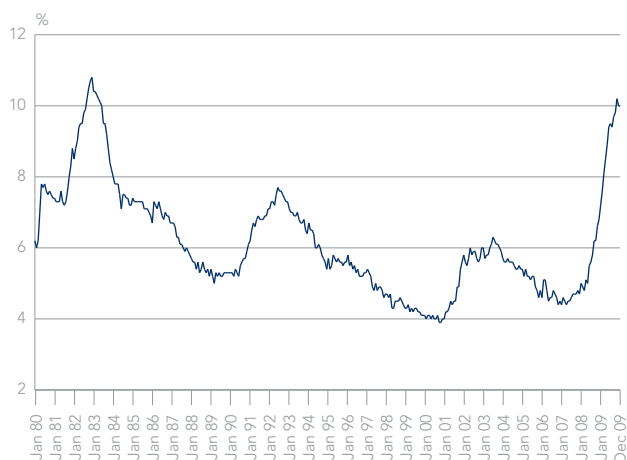


CHANTAL VALENTINE joined Coronation as economic and fixed interest strategist in 2003. With 18 years' experience in analysing local and global markets, she plays a critical role in the investment decision-making process.

Our take on the outcome is largely a mixture of the first and second views. While we agree that governments across the globe will need to rein in the fiscus to get budget deficits and government debt back in line with more prudent levels, we also believe that – in the major economies – the unwind will not happen before governments are satisfied that underlying growth has returned. There are undoubtedly some countries where the pressure on the fiscus is so great that they will be forced to tighten fiscal policy before they would ideally like – Greece springs to mind, and possibly the UK – but we do not see this as an issue for the countries that have a major impact on global growth.

It should also be noted that as growth takes hold, fiscal positions will start improving automatically anyway. Employment lags growth, but as growth and production feed through into employment, both company and individual tax receipts will rise and deficits will start falling. At the same time, some of the emergency spending programmes we have seen, including the bank bailouts, will start easing (some have already started this process).

US UNEMPLOYMENT RATE AT HIGHEST LEVEL SINCE EARLY 1980s



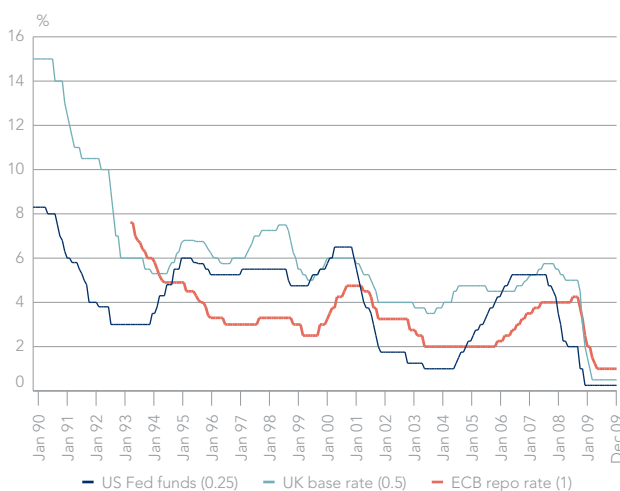
Source: I-Net Bridge

At the earlier stages of recovery, we will see a significant amount of slack in both capacity to produce goods and in labour markets – where many countries still have unemployment rates at around the highest for at least a decade and, in some instances, at the highest rates since the early 1980s. While this slack remains, there is unlikely to be much pressure on prices or wage rates. Gradually, as excess capacity is absorbed, however, then we do believe that inflationary pressures will start to re-emerge.

Another factor raising concerns about inflation down the line is the fact that a number of governments have ‘monetised’ their deficits – where terms like ‘quantitative easing’ basically mean ‘printing money’. As Nobel Prize-winning economist Milton Friedman said, ‘inflation is always and everywhere a monetary phenomenon’. Friedman has been proved right over the years, and we see no reason he would be wrong this time.

Central banks remain committed in their fight against inflation, and when signs of inflation emerge we do expect to see central banks start tightening policy. Indeed, some developed country central banks, like Australia and Norway, have already started raising rates. In these two countries as almost everywhere, the rise in rates is coming off extremely low levels and it will take a long time before interest rates might be regarded as ‘normal’, much less actually restrictive. The same will be true for the US, where the markets are currently factoring in increases in the Fed funds rate beginning later this year.

CENTRAL BANK RATES ARE AT EMERGENCY LEVELS



Source: I-Net Bridge

Again, however, it should be emphasised that central banks are not at all keen on choking off recovery and interest rate hikes will remain cautious. Central banks are essentially walking a tightrope, where they are betting they will be able to start raising rates in time to prevent inflation reaching uncomfortable levels. But as they try to maintain the balance between nurturing growth and preventing inflation, we believe that they will err on the side of promoting growth. The likely outcome is that inflation will be higher than desired, at least for a while.

Central banks will not stand idly by while inflation gets out of control, however. The likely occurrence at some future stage of a combination of monetary and fiscal tightening will certainly have a dampening effect on growth, but we do not expect it to be so bad that we end up going back into recession. Partly this is because we expect policy to remain as supportive of growth as it can, but it is also partly due to the expectation that growth in emerging markets – and especially, yes, China – will remain fairly robust. (Indeed, the potential problem we foresee for China is not that growth falters, but that it overheats.)

The overall picture we see for the world economy is thus one of a return to growth, but due to the need for a rebalancing of monetary and fiscal policy we do not see a return to the global growth rates of around 5% that characterised the 2004-2007 period.

What does all this mean for South Africa? South Africa's growth cycle has followed the global growth cycle, with a lag – as makes perfect sense for an economy that is very exposed to the export sector. While South Africa has gone through a recession in 2009, we see fairly robust growth returning in 2010 and 2011 – not the same kind of growth rates as seen in the boom years, but certainly respectable growth of around 3%. In fact, we see almost a mini-Goldilocks scenario, as at least for most of 2010 we expect inflation to remain fairly tame. This is partly because of a similar global picture, but importantly is also due to the fact that the rand has been strong for a fair while now and the usual lags between the currency and inflation imply a positive outcome for inflation for this year. The picture changes somewhat next year, when the combination of a stronger dollar/weaker rand (likely from later this year) and rising global inflation may see our inflation rate rise somewhat. But the overall theme is similar to what we see globally, in that things will not be as good as they were in the boom years – but we do not expect a slip back to the worrisome combination of low/negative growth and (in South Africa's case) the high inflation that characterised 2009.

Bond market outlook

A more positive year ahead

by MARK LE ROUX

Name	December 2009	3 months	6 months	2009
All Bond	1.20%	1.1%	4.1%	(1.0%)
GOVI	1.18%	1.1%	4.0%	(0.8%)
OTHI	1.26%	1.1%	4.6%	(1.7%)
Bonds 1-3 years	0.69%	2.0%	3.9%	7.7%
Bonds 3-7 years	0.82%	1.7%	4.7%	2.8%
Bonds 7-12 years	1.05%	0.9%	4.1%	(2.2%)
Bonds 12+ years	1.91%	0.5%	3.6%	(7.5%)
Cash	0.60%	1.8%	3.7%	8.9%
Barclays/ABSA Govt ILBs	0.47%	0.2%	1.6%	7.7%

Source: Deutsche Bank

Improved outlook

Bonds returned a very poor -1% for the 2009 calendar year; underperforming cash by close to 10%. The outlook for the year ahead, however, looks decidedly more positive, with current yields close to 9.5% compared with their 2009 starting point of around 7%.

Why?... Improved inflation trajectory

The key driver for this improved outlook is the expectation that the improving trend in inflation will continue in 2010. CPI ended 2009 with a November release of 5.8% – the second month in which it fell within the 3% – 6% target range. The continued rand strength coupled with weak money supply and negative private sector credit extension bodes well for inflation in 2010.

However!... a sell-off in the rand could derail this

The risks to our relatively benign inflation outlook in 2010 stem from a potential unwinding of the base effects of the lower food and fuel prices experienced in 2009, uncertainty over electricity price increases and the chance of a severe bout of global risk aversion which could trigger a sharp retracement in the rand.



MARK LE ROUX is responsible for the fixed interest investment process and portfolio management functions for both institutional and retail portfolios. Mark has more than 18 years' experience in managing both traditional and alternative portfolios.

But... beware the 'elephant in the room'

The proverbial 'elephant in the room', putting pressure on the bond market and not allowing any compression in yields, remains the weekly supply of new government debt. By November 2009, National Treasury had stepped up its nominal bond funding requirement to R2.1 billion a week and issued R600 million face value of inflation linkers (about double this figure in actual cash outlays required). Added to this is the continued state-owned enterprises' (i.e. Eskom, Transnet, etc) issuance.

Only once there is a let up in the issuance programme (improving tax revenue/growth) or new buyers of bonds (foreigners or banks as they start extending credit again) can one expect a decent rerating of bond yields to occur. For now we need to be satisfied with just the yield portion of the return, which at 9.5% is not an insignificant buffer versus cash at around 7%.



Equity market update

Focused on long-term value

by KARL LEINBERGER


The last few years have been nothing short of extraordinary. In 2008 the pendulum swiftly swung from greed to fear as investors watched in horror while their retirement capital was washed away in the greatest banking crisis of modern times. Then, in the first quarter of 2009, just as most investors had moved to the relative safety of cash and government bonds, risk assets around the world rallied. The differing fortunes of equity and bond markets are well illustrated by the 2009 calendar year returns of -1% from the All Bond Index and 32.1% from the All Share Index (70.1% in US dollars). Emerging markets returned 79%, oil 105% and copper 153.1%.

With the very strong showing of risk assets we are much more circumspect about the future. While in 2009 a rising tide lifted all boats, we expect lower correlations in the year ahead. This should favour stock-pickers. Equities remain our favoured asset class, although we have taken profits from a very aggressive overweight position in the early part of 2009. We now hold what we consider to be a neutral equity exposure. We continue to believe that global equities are more attractive than local equities. When one considers the very strong rand, we believe that investors currently have an excellent opportunity to diversify their portfolios. We have taken full advantage of this across client portfolios.

The All Share Index returned 11.4% in the final quarter of 2009. Resources led the market with a 16.7% return, while financials returned 6.5% and industrials 8.5%. We remain underweight resources with the view that the upside to long-term valuations, based on mid-cycle earnings, is not attractive enough to justify higher exposures. We have virtually no exposure to gold and platinum counters. Although these companies would benefit were the rand to weaken, they are experiencing enormous cost pressures and do not offer sufficient upside to their long-term business value to justify a holding.



KARL LEINBERGER is CIO and a member of the executive committee. He joined Coronation in 2000 as an equity analyst, was made head of research in 2005 and appointed CIO in May 2008. Karl co-manages the Coronation Equity and Balanced Plus Funds as well as the Houseview portfolios.

MTN remains one of our largest holdings. It is an over-owned stock that has underperformed as loose holders of the stock have sold over concerns on the collapse of the Bharti deal and the lack of any clear catalyst to unlock value. We, as always, have no interest in catalysts and are only concerned with long-term value. The company trades on very undemanding ratings 2-3 years out and should enjoy many years of above-average growth with their dominant position in many under-penetrated mobile markets. 

If history doesn't repeat itself, it rhymes

A look at small cap shares

by ALISTAIR LEA

If you had invested in the small cap index some 15 years ago, your investment would have grown 11.8% per annum; not too far off the 12.6% per annum return delivered by the overall market over the same time frame. But within these 15 years small caps had many phases of dramatic out and underperformance of the market.

SMALL CAPS AND THE ALL SHARE INDEX



Source: I-Net Bridge

So, why the volatility? Why do small caps go from being loved by investors to completely ignored? Generally, this question has one of three answers, or a combination thereof:

- The earnings of small cap shares are increasing/declining faster than the market
- A listing boom spurred prices upwards
- Investor risk appetite, or lack thereof, drove prices up or down

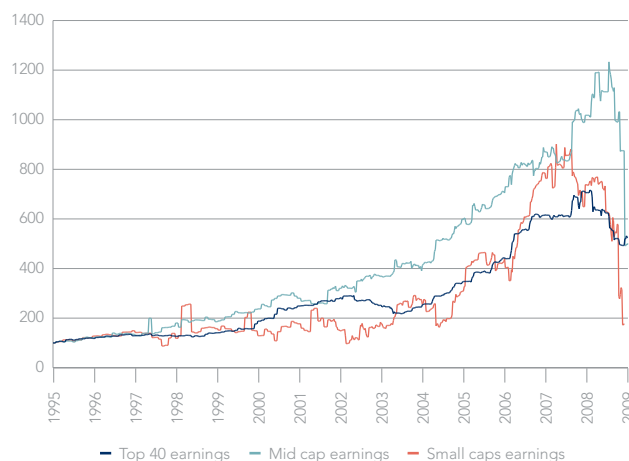


ALISTAIR LEA is an experienced small caps and financials analyst. He has been responsible for the management of the Coronation Smaller Companies Fund since March 2005.

Small Cap Earnings

The most important driver of share prices is earnings. Looking at the orange line in the chart below, one can see how volatile the earnings of the small cap index have been. This is the most important reason why small caps are generally more volatile than other larger stocks. Interestingly mid caps have shown remarkably consistent growth in earnings relative to small caps and the top 40 shares. The primary reason for this is that the level of the rand is a big driver of the resource-heavy top 40 index, whereas the mid cap index is dominated by retailers and other South African businesses whose earnings are little impacted by the level of the rand.

TOP 40, MID CAP AND SMALL CAP EARNINGS



Source: I-Net Bridge

As is clear from the chart above, small cap earnings have been decimated by the current harsh economic climate, and are down a massive 77% since March 2009. Mid caps and the top 40 shares have managed to stem their earnings drop to between 22% and 26%. Why the big difference?

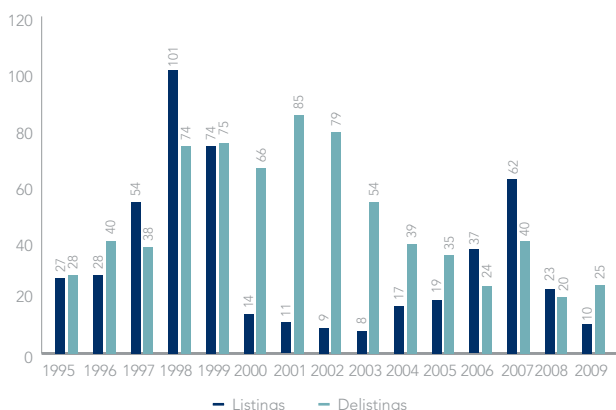


The quality of the average small cap share is not the same as the quality of the average top 40 or mid cap share. These larger indices are typically populated by companies who dominate their market space (the big banks, global brewers, dominant cell phone operators, large food and clothing retailers). The business models of these companies are robust and have seen through many recessions in the past. They are typically managed by experienced executives and generally have balance sheets strong enough to cope with a protracted downturn. Many small cap shares on the other hand do not dominate the industry in which they operate. Often, their business models flourish in the good times, but come under pressure when the economy tightens up. They also tend to have less experienced managers who may not have seen hard times before and who are more prone to over-gearing the balance sheet in the good times; placing financial strain on the company when business conditions deteriorate. The number of rights issues that have been announced in the past six months is evidence of where the strain has been felt. Not one Top 40 company has embarked on a rights issue while the following smaller companies have.

- Sovereign Foods
- AG Industries
- Metorex
- Seardel
- Vunani
- York Timber
- Super Group
- Pinnacle Point
- Sentula
- Distribution and Warehousing Limited

Listing booms

LISTINGS VS. DELISTINGS



Source: Citigroup/JSE

The small cap listing boom of the late 90s, and the subsequent crash, certainly shaped many investor perceptions (mostly negative) of small cap shares. A total of 175 new listings occurred in 1998 and 1999, about the same amount of new listings that happened in the ensuing eight years, which includes the listing boom year of 2007. Many of these companies only remained listed for five years (often less), which explains the large number of delistings in the years 2000 to 2002.

This listing boom spurred a feeding frenzy amongst investors. New listings were typically many times oversubscribed, with share prices often opening multiples higher than the issue price. Many small cap unit trusts were launched around this time, (fuelling the demand for the new listings), some of which attracted up to R1 billion in inflows in less than six months. Below are some examples of companies that listed at this time.

	Listing date	Opening price	Price high	Delisting date	Price at delisting
Billboard	Aug 08	245	245	Feb 02	1
Bryant Technology	Jul 98	144	425	May 01	1
Capestar Growth Investments	Aug 97	1 800	1 800	Jan 02	46
Computer Services Holdings	Oct 98	110	145	Jan 05	25
Cycad	Mar 99	200	200	Jun 04	1
Idion	Aug 98	205	2 300	Nov 06	330
Smacsoft	Jul 99	150	200	Feb 01	70

This listing boom was the primary driver of the massive five month spurt from small caps for the period January to May 1998, as shown in the chart below.

THE SMALL CAP INDEX IN 1998 AND 1999



Source: I-Net Bridge

Nearly 10 years later, another listing boom delivered spectacular returns initially, only to unravel in equally spectacular fashion; leaving bewildered investors wondering why they had not learnt their lessons 10 years ago. This was the AltX listings boom of 2007. While the 1998/1999 boom was all about IT and small cap financials, this was predominantly a construction story. And once again, in retrospect, these listings signalled the top of the cycle. From its debut in February 2006 to its peak in November 2007, the AltX gained a massive 153%, only to lose it all (and more) over the ensuing two years, down 78% from the peak to today.

Some examples of the spectacular gains and losses made on AltX stocks are listed below.

	Listing date	Issue price	Price high	Price Dec 2009
WG Wearne	Feb 06	100	620	40
Sanyati	Jun 06	100	400	50
TopFix	Dec 06	100	320	80
Blue Financial Services	Oct 06	100	680	52

Investor risk appetite

Small caps, because of the volatility of their earnings, are more risky than mid and large caps. Therefore when investors have appetite for risk, small caps flourish and vice versa. The chart below indicates how well small caps performed in the boom years of 2003 to 2007. However, when the market peaked in late 2007 and with the arrival of the global credit crisis, risk appetite waned, and small caps have since underperformed.

SMALL CAPS RELATIVE TO LARGE CAPS



Source: I-Net Bridge

Where in the cycle are we now?

Despite the 77% drop in small cap earnings since mid-2008, the index is up 33% from its March 2009 low. One must also bear in mind that the index is still up nearly five fold from May 2003, the start of the massive five year recovery in small caps. The exact point in the cycle is therefore not that easy to determine, but we would make the following points.

- The earnings base of the average small cap share is very low, and should grow strongly off this base. Earnings (growth or contraction) is the most important driver of share prices.
- Small caps remain out of favour, and risk appetite locally is not particularly high at the moment. This means that investor focus on small caps is low.
- Perhaps the most important consideration when investing in small caps is the balance sheet risk. If a company needs to recapitalise its balance sheet, this is more often than not, dilutive to existing shareholders.
- While the index is up 33% from its lows, many specific shares still trade close to their multi-year lows and offer compelling investment opportunities.

In the past six to nine months, Coronation has bought into many small cap shares, such as Distribution and Warehouse Network, Kelly Group, Omnia, York Timber and Advtech, to name a few. It is not always easy investing in companies where earnings are under pressure and newsflow is poor, but these moments so often prove to be the most rewarding times to invest. We don't think it will be different this time.

International outlook

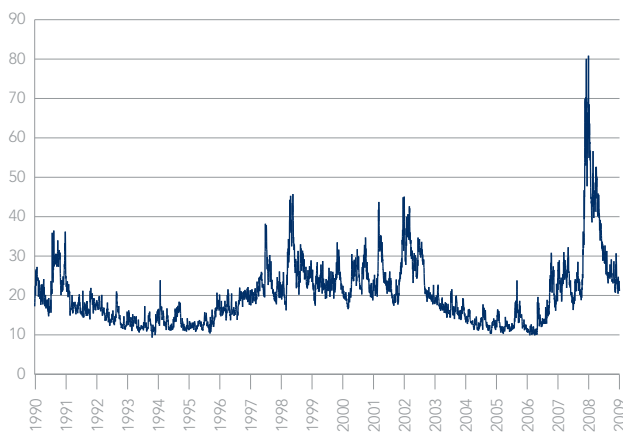
2008 was a free-fall; 2009 was a bungee snap-back; so what will 2010 bring...?

by TONY GIBSON

The chart below shows the VIX Index. Put simply this is a measure of the volatility of the S&P index; or put another way, it represents how large and frequent share price movements have been over the past 20 years. As can be seen below, until mid-2008 the index ranged from around 10, up to 45, thereafter it went haywire, spiking at an unprecedented 80, before stabilising within the more 'normal' range of 20-30.

While this index is an indicator much used by the investment community, a brief summary of its recent history is necessary to provide explanation and perspective. It will also help in assessing the implications for the future.

VIX INDEX



Source: Bloomberg

The 1989-2002 period

The index was relatively volatile during this period as the global financial system was buffeted by many financial shocks.



TONY GIBSON is a founder member of Coronation and a former CIO. He was responsible for establishing Coronation's international business in the mid 1990s, and has managed the Coronation Global Equity Alternative Strategy Fund since launch in 1996.

These stresses and strains included:

- The Savings and Loans financial crisis in the US – 1989
- The Mexican crisis – 1994
- The Asian Crisis – 1996-97
- The Russian default and Long Term Capital collapse – 1998
- The Tech bubble bursting – 2000

The key observation to make during this period is that, during these 13 years, the index moved in a range from 10 to 45. During the most severe moments, referred above, the index spiked briefly to an all time high of 45 – reflecting the very severe uncertainty caused by the crises to which the financial world was subjected.

The 2003-2007 period

During these 'wonderful' Fed Chairman Greenspan induced low heart-beat years, the index stayed in a very low band – mostly between 10 and 20. This was a reflection of the growing belief that the financial world had reached a state of Nirvana, whereby volatility and the risk of financial catastrophe were deemed to be a thing of the past. The major contributors to this sanguine state of affairs were a combination of the massive liquidity availability, low inflation, excessive financial innovation, and poor financial regulation. With hindsight, and as the index clearly illustrates, it was something of a fairytale period.

2008 Onwards

We are all very much aware of what happened in 2008-9; so no history lesson required. A look at the index during this period says it all. The world faced a financial Armageddon; and this was only averted by the financial authorities around the world taking extreme and unprecedented measures to avert a prolonged and painful depression. The index, after rising to 80 in late 2008, again fell sharply to around 25. Although this clearly reflects renewed faith and participation by investors in

global equity markets, it must be highlighted that the current level is still well above the range prevailing over most of the past decade. Again, some perspective is needed.

The consensus which had been so negative during 2008 and early 2009 quickly adjusted to a more stable outlook in the second quarter of 2009, and after that time seemingly embraced the idea that the global economy was recovering. The investment community took shares materially higher in the period from April onwards, in particular in emerging markets. However, some doubt crept back in during the final quarter, largely induced by the financial wobbles experienced in Dubai.

The key question that needs to be addressed is whether the current index level of around 25 is backward or forward looking? After all, prior to the 2008 meltdown, any level over 20 would suggest a world in some degree of financial crisis. This indicator is certainly supported by the behaviour of the gold price which rose by 24.7% during 2009. This rise suggests an environment in which investors have little faith in the financial system – as represented by paper currencies. It is true to say that part of this move represents inflationary concerns – with the US 10 Treasury yield moving up from 2.2% to 3.5% – but another part merely reflects concerns over the health of the global financial system. At present, we still detect an underlying level of scepticism regarding the global recovery, both within companies and within the investment community.

The following extract from an investor report, written by one of Coronation's international managers, sums up the current level of investor concerns very well.

'...In the month of November, short-term US Government Treasuries were providing investors with a guaranteed negative rate of return on their capital. Even today one only receives two basis points for lending money to the US Government for 90 days. This is, in our opinion, just one example of a bubble of pessimism that exists today. It is extremely dangerous to try to predict when a bubble might end. However, it is quite clear that investors will not be able to tolerate such a low rate of return indefinitely, particularly as the economic landscape continues to improve. The investment professionals, who not many months ago were predicting the world's end, will have to redirect their investors into 'more' risky assets. It is likely that pressure will come from the investor base itself. The nine month chart of stock gains looks too alluring for investors not to be pulled back into the market, as investors typically only seem to know the prices and not the values of their investments. In other words, they tend to buy more when stocks move higher.'

2010 Outlook

In developed markets, leading indicators such as industrial production and consumer credit statistics appear to have bottomed. Earnings have surpassed (lowered) expectations and easy year-on-year comparisons abound for companies and economies. This will at the very least create the appearance of a recovery if nothing else. On the other hand, for many industries, revenues may have stabilised, but anecdotal evidence suggests no sign of sales growth. Many management teams in the real world have no visibility and remain sceptical of a coming economic rebound, especially a strong one. That said, some expectations for recovery look too sanguine in industries such as the capital goods sector where company profit margins have held up well, despite significant falls in capacity utilisation. In other words pricing pressure was less severe than in prior recessions. The question to ask is whether it is truly different this time, or did the downturn happen so quickly that pricing pressure never took hold? It seems that more pricing pressure is to come in sectors such as capital goods, thereby proving to be a disappointment to those who expect operating leverage to be muted.

While this debate will no doubt be resolved in 2010, the point is that the easy money across the equity markets was made in 2009 by those investors adopting a momentum, or non-differentiating, buying approach. By comparison, investors that do the hard work in analysing the constituent sectors of the markets and stocks will continue to be rewarded as they find fundamentally undervalued stocks.

Turning to the overall level of markets, even after the recent sharp recovery in equity markets, returns over the past 10 years have still been unusually poor, in fact negative in most markets. Certainly taking long-term 100 year history as a guide, this fact would lead one to expect above average returns over the next 10 years.


It must be remembered that the period from September 2008 to early March 2009 was an anomaly because the demand for cash became the overriding consideration for investors. It was a giant margin call with a mad rush to raise money. While in many circumstances this selling was very logical, it created an illogical pricing of perfectly good assets. Investors were able to buy great businesses at significant discounts to their intrinsic values. The lessening demands for liquidity over the past nine months have only partially reconciled the discrepancy between the prices and the underlying compound returns that investors are likely to achieve by being invested in these businesses. Investors were, for a variety of reasons, taking cash out of



equities at exactly the time when their expected compound rates of return were at their highest.

There are many uncertainties and risks facing the financial system as we move into 2010. These risks will multiply as long as politicians remain obsessed with being re-elected rather than taking the often painful decisions that are needed were a longer-term perspective to be taken. All indications are that we are now moving into yet another bubble era, fuelled by easy money and effectively free money. It is, however, also true to say that this new bubble era will inflate more slowly than previous ones, due to the realisation that rules governing the banking sector need

to be tightened, thereby averting another credit fuelled bubble for many years to come.

Investors are therefore faced with a conundrum. That is, if they subscribe to a very bearish medium-term outlook, they must therefore also subscribe to the view that interest rates will remain at (probably) negative real rates for the next few years. How, therefore, does an investor preserve wealth in real terms? Under this scenario it would seem that a portfolio of intrinsically undervalued global equities will prove to be the only sensible investment which will produce attractive income and capital returns to long-term investors. 

Lansdowne Partners Limited

by STEVEN HEINZ, co-founder of London-based
Lansdowne Partners and manager of their European Strategy

Guest contributor

The latest comments from the Fed were emphatic and it is clear that monetary expansion will continue. Rates were left on hold and will be kept 'exceptionally low for an extended period'. They named the triumvirate of 'low rates of resource utilisation, subdued inflation trends and stable inflation expectations' as the prime justifications for this clear stance. The subtext is that monetary conditions will not be reversed while unemployment remains high.

The European Central Bank (ECB) was similarly unequivocal. It kept rates on hold and, in contrast to some suggestions, will continue to support the banking sector with its quantitative easing (QE) measures which allow Euro-area banks to borrow from the ECB at extremely low rates. Meanwhile, the Bank of England has actually extended the scope of its QE operations.

We continue to believe that monetary policy around the world is supportive of company earnings and of real economic activity. The excellent third quarter earnings season in the US reinforces this view. Most notably, flat revenues were transformed into earnings growth in light of the extent of corporate restructurings we have seen. Firms have never been so lean and operational leverage will be significant when top line growth returns.

The cost of this outstanding resilience in corporate profitability has been unemployment. While the US unemployment rate stands at its highest rate since 1983 (10.2%), temporary employment is on the upswing, a sign that employers are returning tentatively to the marketplace. Unemployment seems not to have hindered existing home sales, however, which jumped 10.1% to 6.1 million in October 2009. This is the highest level since March 2007. The pending home sales index for October suggests November transactions will be close to 6.5 million, not far short of the 7 million trend at the peak of the boom.

Data outside the US also encourage a more upbeat assessment of the global economy. In Asia, unemployment rates are already nudging back down, including in Australia, Korea and Hong Kong. Since bottoming early in 2009 Chinese exports and imports, probably China's most reliable economic indicators, were respectively up 28.4% and 40.6% through October. A consequence of economic strength in Asia and other emerging markets has been notable currency strength and we remain vigilant to potential adverse policy shifts that this might encourage. Taiwan, for example, is to ban foreign investors from placing funds in time deposits, a move obviously aimed at stemming the flood of hot money. Vietnam has effectively devalued its currency while Brazil has recently introduced a tax on foreign purchases of stocks and bonds.


The major risk to our sanguine outlook for economic activity is the potential threat of rising bond yields. Reports at the end of November that Dubai is to delay payment on its debts of around \$80-90 billion is a reminder that default risk does exist in countries that are especially fiscally stretched. As an example, the recent increase in spreads in Greece underlines this risk.

Of the major economies, Japan is most at risk from the impact of rising bond yields and our recent trip there during November

tended to confirm this view. The 10-year Japanese Government Bond yield is barely above 1% yet the economy is characterised by a seemingly endless recession and gross public sector debt could potentially breach 300% of gross domestic product. All this is backed by political and monetary institutions which inspire little faith. We are conscious that such tricky predicaments may result in policy responses that, in order to retain a liquid source of government funding, are counter-productive for equities and we remain watchful to this risk.

We remain of the view that monetary conditions and short interest rates around the world are supportive for equities and are now having a real impact on economic activity. The main risk is that long-term rates begin to rise as fiscal deficits continue to expand, resulting in a risk/reward balance that is much more attractive for equities than for bonds.

We continue to find opportunities geared to the growth of BRIC countries which now account for around 50% of global growth. Such opportunities exist via investing directly in companies in these countries and indirectly, typically through global leaders in their fields much of whose incremental growth comes from these markets.

We also like a number of businesses which are simply cheaply valued, especially in developed markets. In particular, we like those businesses whose share prices extrapolate from the hiatus caused by the financial crisis and fail to anticipate any form of economic stabilisation or a return to normalised earnings. 

The institutional Global Equity fund of funds is invested in the Lansdowne European Long Only Fund.

Personal investments update

A tax-conscious, low-risk solution

The soon to be launched Coronation Optimal Income Fund is a low-risk, tax-conscious fund that aims to produce an after-tax return greater than 110% of after-tax cash. It is aimed at tax-paying investors looking to earn a reasonable rate of return, but with a low-risk budget and/or a shorter investment horizon (six months to three years is recommended). The fund's mandate is designed to complement our existing Strategic Income Fund, which aims to maximise pre-tax returns for investors with similar risk and time constraints.

Optimal Income has the ability to invest in all asset classes, but with a bias towards equities, as the sources of return associated with this asset class – dividends and capital gains – are relatively tax-efficient. Hedging with appropriate derivative instruments will be used to significantly reduce the risk of capital loss normally associated with equities.

Mark le Roux and Greg van Til co-manage the fund supported by the proven asset allocation and security selection skills of our investment team to outperform its benchmark.

For further information on the Coronation Optimal Income Fund please contact us on 0800 22 11 77.

Saving for retirement

With the end of the 2009/10 tax year fast approaching, investors are reminded of the potential tax saving that an investment

into a retirement annuity fund can make. While Coronation offers a competitively priced retirement annuity fund, investors can also select any one, or combination, of our unit trust funds as their underlying investments via most of the linked-product and life-office platforms in the country. The top-performing Coronation Balanced Plus Fund is the ideal one-stop portfolio for retirement savers.

Appointment of co-managers

Four of our senior analysts have been appointed as portfolio managers within the investment team. Henk Groenewald partners with Louis Stassen as co-manager of the Capital Plus, SA Capital Plus and Absolute Funds; Pallavi Ambekar joins Neville Chester on the Top 20 Fund; Neill Young joins Charles de Kock and Mark le Roux on the Balanced Defensive Fund, and Quinton Ivan takes on the Equity and Balanced Plus funds with Karl Leinberger. All managers assumed their additional responsibilities at the beginning of 2010.

Farewell to Edwin Schultz

We would like to thank Edwin Schultz, former co-manager of our Absolute Return Funds, for the enormous contribution that he has made to our business and the Capital Plus Fund specifically since its inception in 2001. As has been communicated to the market over time, Edwin and his family have decided to emigrate to Australia. We wish him well in his future career. 



Core fund range

Coronation offers a range of domestic and international funds to cater for the majority of investor needs. These funds share the common Coronation DNA of a disciplined, long-term focused and valuation-based investment philosophy and our commitment to provide investment excellence.

Core domestic

FUND	FUND DESCRIPTION	FUND HIGHLIGHTS
INVESTOR NEED: CAPITAL GROWTH		
Top 20	A concentrated portfolio of our top stock picks on the JSE.	Currently the top-performing broad-based equity fund over 3 & 5 years. Produced 1.5x the market's return at only 0.9x the market's risk since launch.
Balanced Plus	Best investment view across all asset classes. Ideal for retirement savers.	R100 000 invested at inception in 1996 is worth R831 772 today, compared to R593 760 achieved by its average competitor.
INVESTOR NEED: INCOME & GROWTH		
Capital Plus	Focused on providing a growing regular income. Ideal for investors in retirement.	Outperformed inflation by 9% p.a. since launch in 2001.
Balanced Defensive	A lower risk alternative to Capital Plus for investors requiring a growing regular income.	Top-performing fund over two years in the Asset Allocation – Prudential Low Equity Category.
INVESTOR NEED: INCOME ONLY		
Strategic Income	Asset allocation across the yielding asset classes. Ideal for investment periods between 6 months and 2-3 years.	Outperformed cash by on average 2.1% per year since launch in 2001.

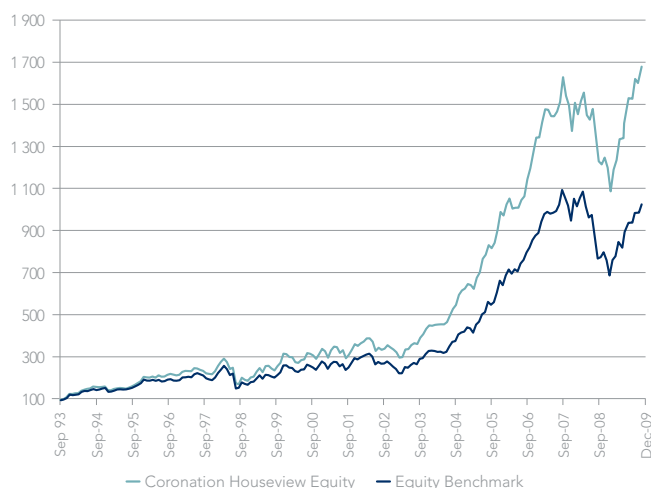
Core international

FUND	FUND DESCRIPTION	FUND HIGHLIGHTS
INVESTOR NEED: CAPITAL GROWTH		
Global Emerging Markets Flexible	Best investment view across emerging markets	Outperformed the MSCI EM Index (measured in US\$) by 7.7% p.a. since launch. The only dedicated emerging markets fund in SA.
World Equity [ZAR] Fund of Funds	A focused portfolio of the best developed market equity managers	Outperformed the MSCI World Index (measured in US\$) by 3.3% p.a. since launch in 1997.
Global Managed	Best global investment view for US dollar investors	Positioned to benefit from our belief that foreign assets will provide the best returns over the long term.
Optimum Growth	Best rand risk-adjusted returns from a global multi-asset portfolio	4th best performer out of 70 funds in the foreign and worldwide equity and flexible categories in 2009.
INVESTOR NEED: CAPITAL PRESERVATION		
Latitude [ZAR] Fund	Returns in excess of foreign cash while preserving capital in US dollars over any 12 months	Produced a return more than 3x that of its US dollar and euro cash benchmark since inception in 2008.

CORONATION HOUSEVIEW EQUITY* RETURNS VS. EQUITY BENCHMARK

5-YEAR ANNUALISED RETURNS	CORONATION HOUSEVIEW EQUITY	EQUITY BENCHMARK	ALPHA
1998	8.15%	6.49%	1.66%
1999	14.23%	10.91%	3.33%
2000	10.93%	7.52%	3.41%
2001	10.95%	9.38%	1.57%
2002	9.46%	7.14%	2.32%
2003	18.02%	13.49%	4.53%
2004	14.12%	9.35%	4.78%
2005	23.33%	18.63%	4.70%
2006	28.37%	23.07%	5.30%
2007	33.78%	29.52%	4.26%
2008	23.34%	19.28%	4.06%
2009 (to 31 December 2009)	22.20%	19.77%	2.43%
ANNUALISED TO 31 DECEMBER 2009			
1 year	35.1%	29.9%	5.2%
3 years	9.9%	6.3%	3.6%
5 years	22.2%	19.8%	2.4%
10 years	18.1%	14.4%	3.7%
Since inception in October 1993 annualised	18.9%	15.4%	3.5%
Average outperformance per 5-year return			3.53%
Number of 5-year periods outperformed			12
Number of 5-year periods underperformed			0

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS SINCE INCEPTION



An investment of R100 000 in Coronation Houseview Equity on 1 October 1993 would have grown to **R1 677 294** by 31 December 2009. By comparison, the returns generated by the Equity Benchmark over the same period would have grown a similar investment to **R1 027 236**.

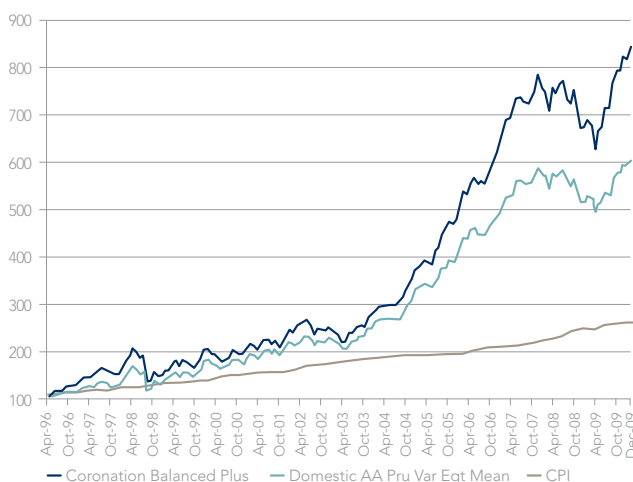
* Coronation Houseview Equity, which is an institutional portfolio, has been used to illustrate Coronation's investment track record since inception of the business in 1993.



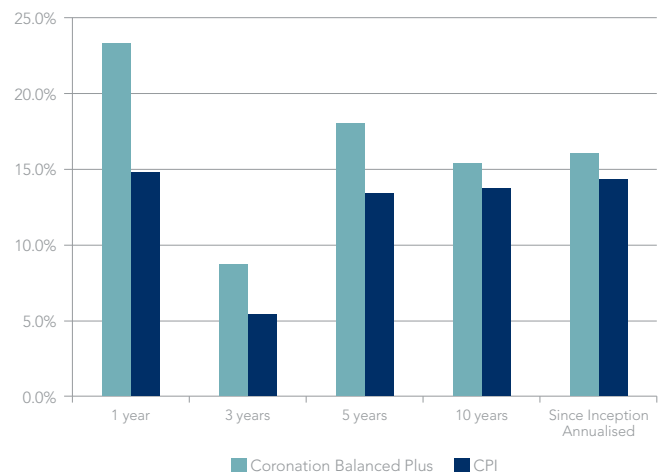
CORONATION BALANCED PLUS FUND VS INFLATION AND AVERAGE COMPETITOR†

5-YEAR ANNUALISED RETURNS	CORONATION BALANCED PLUS	INFLATION	REAL RETURN
56 months to 31 December 2000	15.69%	7.90%	7.79%
2001	14.05%	7.41%	6.65%
2002	10.43%	8.04%	2.39%
2003	14.43%	7.33%	7.10%
2004	13.64%	6.68%	6.95%
2005	20.39%	5.85%	14.54%
2006	22.36%	5.54%	16.82%
2007	25.35%	5.17%	20.18%
2008	19.28%	6.41%	12.87%
2009 (to 31 December 2009)	17.60%	6.83%	10.77%
ANNUALISED TO 31 DECEMBER 2009	CORONATION BALANCED PLUS	DOMESTIC AA PRU VAR EQT MEAN	ALPHA
1 year	23.0%	14.7%	8.3%
3 years	8.5%	5.8%	2.7%
5 years	17.6%	12.7%	4.9%
10 years	15.6%	13.2%	2.4%
Since inception in April 1996 annualised	16.8%	13.9%	2.8%
Average 5-year real return			10.61%
Number of 5-year periods real return is >10%			5
Number of 5-year periods real return is between 5% – 10%			4
Number of 5-year periods real return is between 0% – 5%			1

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS SINCE INCEPTION



An investment of R100 000 in Coronation Balanced Plus fund on 30 April 1996 would have grown to **R831 772** by 31 December 2009. By comparison, the Mean return of the ASISA Domestic AA Prudential Variable Equity sector over the same period would have grown a similar investment to **R593 760**.

† Average competitor return is the mean of the ASISA Domestic AA Prudential Variable Equity sector

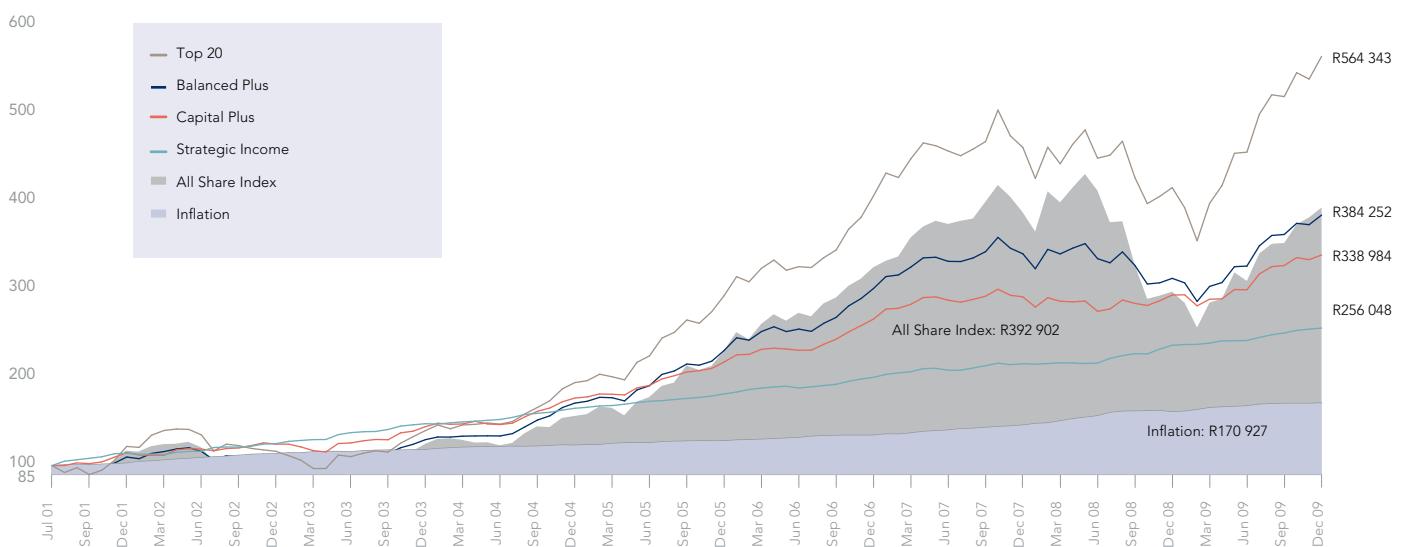
FUND	LAUNCH DATE	ANN RETURN SINCE LAUNCH* (ZAR)	QUARTILE RANK SINCE LAUNCH	5 YEARS (ZAR)	5-YEAR QUARTILE RANK	1 YEAR (ZAR)
SA COLLECTIVE INVESTMENTS						
INVESTOR NEED: CAPITAL GROWTH						
Top 20 FTSE/JSE Top 40 Index (ZAR)	1-Oct-00	24.23%	1st	23.79%	1st	35.85%
Equity FTSE/JSE Shareholder Weighted All Share Index (ZAR)	15-Apr-96	18.08%	1st	19.54%	1st	33.53%
Balanced Plus Composite Benchmark ¹ (ZAR)	15-Apr-96	16.77%	1st	17.60%	1st	22.98%
		14.31%		16.08%		19.10%
INVESTOR NEED: INCOME & GROWTH						
Capital Plus CPI + 4% per annum (ZAR)	2-Jul-01	15.44%	1st	13.93%	1st	15.48%
		10.52%		10.83%		10.36%
Balanced Defensive CPI + 2.5% per annum (ZAR)	1-Mar-07	9.06%	1st	–	–	13.52%
		11.00%		–		8.86%
INVESTOR NEED: INCOME ONLY						
Strategic Income 110% of Short Term Fixed Interest 3-month Index + 3% (ZAR)	2-Jul-01	11.70%	1st	9.18%	2nd	8.24%
		10.50%		9.76%		9.54%

1. Benchmark for the Balanced Plus Fund comprises: 63% Equity (Capped All Share Index), 22% Bonds (All Bond Index), 10% Foreign (60% MSCI Equity gross, 25% JP Morgan Global Bond Index, 15% JP Morgan USD 3-month Treasury Bill) and 5% Cash

* ANN RETURN SINCE LAUNCH = Annualised returns since launch.

Growth of R100 000 invested in our core domestic funds on 1 July 2001

Value of R100 000 invested in Coronation's core domestic funds since inception of the Coronation Capital Plus Fund on 1 July 2001 as at 30 September 2009. All income reinvested for funds; FTSE/JSE All Share Index is on a total return basis. Balanced Defensive is excluded as it does not have a meaningful track record.



Sources: Morningstar and I-Net Bridge



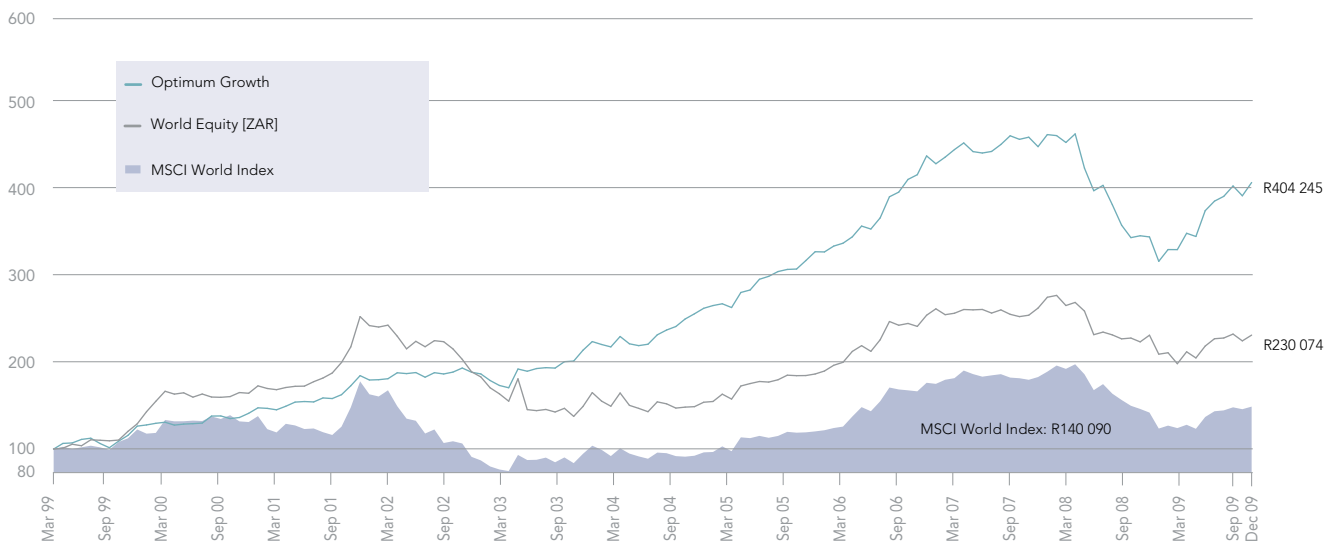
FUND	LAUNCH DATE	ANN RETURN SINCE LAUNCH* (US\$)	QUARTILE RANK SINCE LAUNCH	5 YEARS (US\$)	5-YEAR QUARTILE RANK	1 YEAR (US\$)
SA COLLECTIVE INVESTMENTS						
INVESTOR NEED: CAPITAL GROWTH						
Global Emerging Markets Flexible MSCI Emerging Markets (US\$)	28-Dec-07	(0.78%) (8.45%)	1st	- -	- -	78.79% 79.02%
World Equity [ZAR] FoF MSCI World Index (US\$)	1-Aug-97	6.18% 2.85%	1st	3.38% 2.57%	1st	33.21% 30.79%
Optimum Growth CPI+5% per annum (US\$)	15-Mar-99	12.00% 10.02%	1st	3.89% 6.16%	3rd	51.49% 41.91%
Global Managed ² Composite Benchmark (US\$)	31-Oct-09	6.01% 2.80%	1st	- -	- -	- -
INVESTOR NEED: CAPITAL PRESERVATION						
Latitude 50% Libor + 50% Euribor (US\$)	1-Nov-08	22.72% 6.96%	1st	- -	- -	26.20% 2.45%

2. Benchmark for the Coronation Global Managed Fund comprises: 63% MSCI World (total return) Index, and 40% Citigroup World Government Bond Index. Returns are in US\$. For rand returns, refer to fund fact sheet in the personal investments section of coronation.com.

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Growth of R100 000 invested in our core foreign funds on 15 March 1999

Value of R100 000 invested in Coronation's core foreign funds since inception of the Coronation Optimum Growth Fund on 15 March 1999 as at 30 September 2009. All income reinvested for funds; MSCI World Index is on a total return basis. Latitude [ZAR], Global Emerging Markets Flexible and Global Managed are excluded as they do not have meaningful track records.



Sources: Morningstar and I-Net Bridge



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